

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF LUDINGTON	County MASON
Fiscal Year End 12/31/05	Opinion Date 02/23/06	Date Audit Report Submitted to State 06/06/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NO COMMENTS AND RECOMMENDATIONS NEEDED	
Other (Describe)	<input checked="" type="checkbox"/>	COMMUNICATION LETTER TO CITY COUNCIL	
Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY CPAs		Telephone Number 989-791-1555	
Street Address 60 HARROW LANE		City SAGINAW	State MI
		Zip 48638	
Authorizing CPA Signature <i>Kenneth A. Berthiaume</i>		Printed Name KENNETH A BERTHIAUME	License Number 8339

CITY OF LUDINGTON

Mason County, Michigan

FINANCIAL STATEMENTS

December 31, 2005

CITY OF LUDINGTON

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ludington, Michigan as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ludington's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ludington, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ludington's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

February 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Overview of the Financial Statements:

The City of Ludington's discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended December 31, 2005. The information presented here should be read in conjunction with the financial statements and the notes to the financial statements that follow.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems and marina are included here.

Component Units – The City includes the Downtown Development Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short- and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$26,832,149 (net assets), an increase of \$325,198 from the previous year. Of the \$26.8 million reported in net assets, approximately \$8.2 million may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities decreased \$132,890, or 5 percent, while net assets of our business-type activities increased \$458,088, or 2.5 percent.
- Unrestricted net assets for governmental activities are 49.7 percent of expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported revenues in excess of expenditures of \$688,814 and other financing uses of \$470,725 with a net change in fund balance of \$218,089 for the year. This resulted in a year end fund balance of \$1,494,154. Of this amount, \$1,454,959 is unreserved and undesignated, or 34.24 percent of General Fund expenditures.
- Other significant, unusual or material items affecting this year's revenues, expenses, or net assets are:
 - The City received a federal grant in the amount of \$317,775 to reconstruct a section of Tinkham Avenue which was handled as a contracted project by the State of Michigan. The City's share of costs on this project was \$134,488.
 - The City received net proceeds of \$93,565 from the sale of industrial park property. Per the terms of the contract \$40,000 was set aside and will be rebated to the purchaser incrementally for each job created.
 - The City's Building Authority issued \$2,135,000 of refunding bonds in order to obtain a lower interest rate. The retirement of the 2000 general obligation bonds resulted in a present value savings of \$72,719.
 - The City spent \$297,882 to replace aging sanitary sewer mains. This amount was offset by a grant in the amount of \$191,930 to replace the sewer main under Foster Street.

The City as a Whole:

The City's combined net assets are \$26.8 million at December 31, 2005. Business-type activities make up \$18.9 million and governmental activities make up \$7.9 million of the total. A comparative condensed statement of net assets and condensed statement of activities is a part of the management's discussion and analysis and shown below.

City of Ludington – Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$26.8 million (net assets). However, a major portion (63.4 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City were \$8.2 million at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table depicts a condensed statement of net assets at December 31, 2005 and 2004:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets:						
Current and other assets	\$ 7,355,850	\$ 7,047,027	\$ 5,998,184	\$ 5,708,447	\$13,354,034	\$12,755,474
Capital assets	<u>6,734,630</u>	<u>6,914,473</u>	<u>13,457,407</u>	<u>13,456,620</u>	<u>20,192,037</u>	<u>20,371,093</u>
Total assets	<u>14,090,480</u>	<u>13,961,500</u>	<u>19,455,591</u>	<u>19,165,067</u>	<u>33,546,071</u>	<u>33,126,567</u>
Liabilities:						
Long-term liabilities	2,819,230	2,720,293	459,137	611,336	3,278,367	3,331,629
Other liabilities	<u>3,336,246</u>	<u>3,173,313</u>	<u>99,309</u>	<u>114,674</u>	<u>3,435,555</u>	<u>3,287,987</u>
Total liabilities	<u>6,155,476</u>	<u>5,893,606</u>	<u>558,446</u>	<u>726,010</u>	<u>6,713,922</u>	<u>6,619,616</u>
Net assets:						
Invested in capital assets, net of related debt	3,994,630	4,274,473	13,037,407	12,881,620	17,032,037	17,156,093
Restricted	569,457	903,541	1,018,267	978,267	1,587,724	1,881,808
Unrestricted	<u>3,370,917</u>	<u>2,889,880</u>	<u>4,841,471</u>	<u>4,579,170</u>	<u>8,212,388</u>	<u>7,469,050</u>
Total net assets	<u>\$ 7,935,004</u>	<u>\$ 8,067,894</u>	<u>\$18,897,145</u>	<u>\$18,439,057</u>	<u>\$26,832,149</u>	<u>\$26,506,951</u>

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The following table shows the changes in net assets for 2005 and 2004.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues						
Charges for services	\$ 728,675	\$ 641,994	\$ 3,257,660	\$ 2,930,499	\$ 3,986,335	\$ 3,572,493
Operating grants/contributions	1,220,922	1,271,278	-	-	1,220,922	1,271,278
Capital grants/contributions	513,031	358,765	191,930	-	704,961	358,765
General revenues						
Property taxes	3,117,535	2,983,956	-	-	3,117,535	2,983,956
Franchise taxes	40,306	36,840	-	-	40,306	36,840
State revenue sharing-sales tax	838,148	846,939	-	-	838,148	846,939
Investment earnings	131,118	97,818	133,539	83,365	264,657	181,183
Miscellaneous	-	33,827	-	-	-	33,827
Total revenues	6,589,735	6,271,417	3,583,129	3,013,864	10,172,864	9,285,281
Expenses:						
General government	1,301,598	1,223,724	-	-	1,301,598	1,223,724
Public safety	1,470,118	1,420,422	-	-	1,470,118	1,420,422
Public works	2,502,787	1,583,635	-	-	2,502,787	1,583,635
Health and welfare	145,618	127,304	-	-	145,618	127,304
Community and economic development	733,210	331,308	-	-	733,210	331,308
Recreation and culture	498,822	520,507	-	-	498,822	520,507
Interest on long-term debt	128,547	156,413	-	-	128,547	156,413
Sewer	-	-	1,104,737	1,177,367	1,104,737	1,177,367
Water	-	-	1,274,447	1,257,569	1,274,447	1,257,569
Marina	-	-	745,857	665,965	745,857	665,965
Total expenses	6,780,700	5,363,313	3,125,041	3,100,901	9,905,741	8,464,214
Excess (deficiency) of revenues over expenses before other items	(190,965)	908,104	458,088	(87,037)	267,123	821,067
Other Items:						
Contributions to principal of permanent funds	4,310	8,620	-	-	4,310	8,620
Special item - Gain on sale of capital assets	53,765	822,841	-	-	53,765	822,841
Transfers	-	174,408	-	(174,408)	-	-
	58,075	1,005,869	-	(174,408)	58,075	831,461
Change in net assets	(132,890)	1,913,973	458,088	(261,445)	325,198	1,652,528
Net assets, beginning of year	8,067,894	6,153,921	18,439,057	18,700,502	26,506,951	24,854,423
Net assets, end of year	\$ 7,935,004	\$ 8,067,894	\$ 18,897,145	\$ 18,439,057	\$ 26,832,149	\$ 26,506,951

CITY OF LUDINGTON

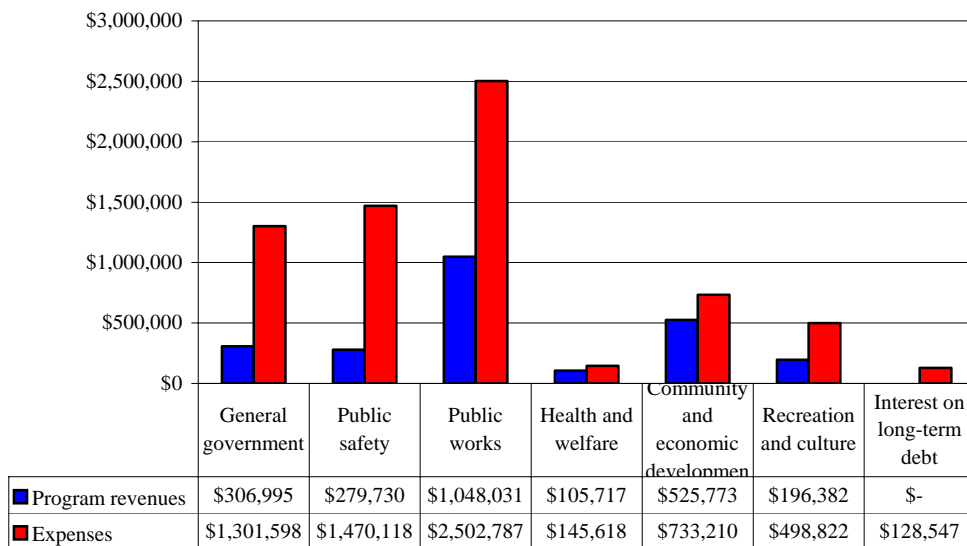
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

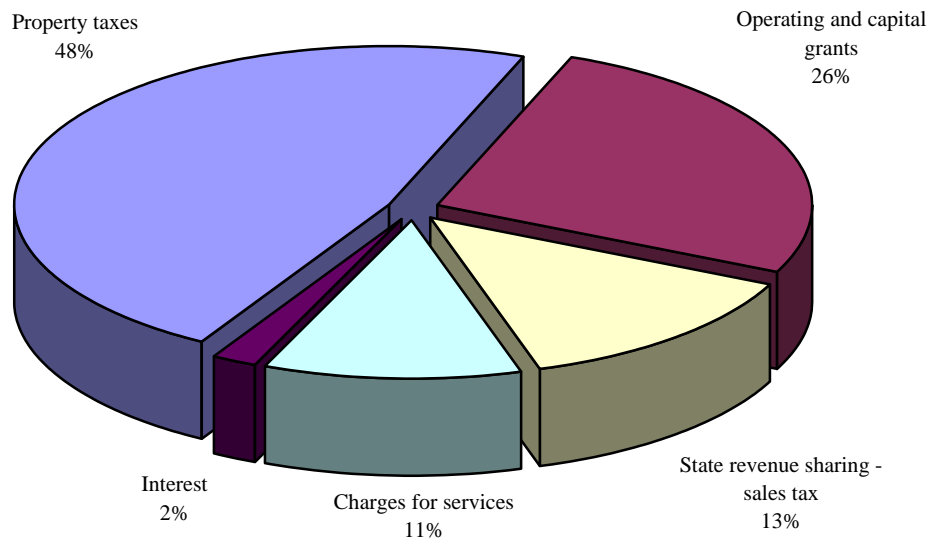
Governmental Activities:

For the year ended December 31, 2005, revenues for the City's governmental activities totaled \$6.6 million. Property taxes accounted for 47 percent of the total revenues, or \$3.1 million. State-shared revenues were 13 percent, or \$838 thousand; these revenues continue to be a concern as to future funding levels.

**Governmental Activities
Program Revenues and Expenses**



**Governmental Activities
Revenue by Source**



CITY OF LUDINGTON

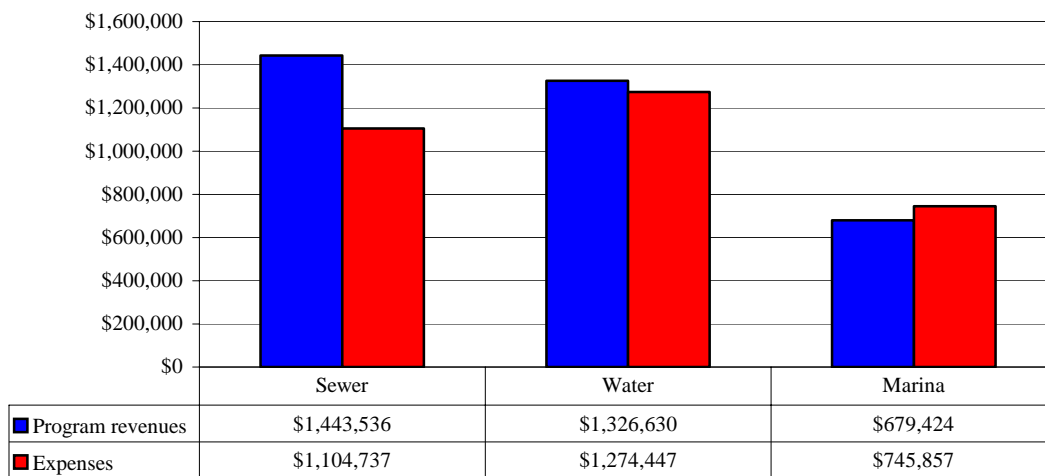
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

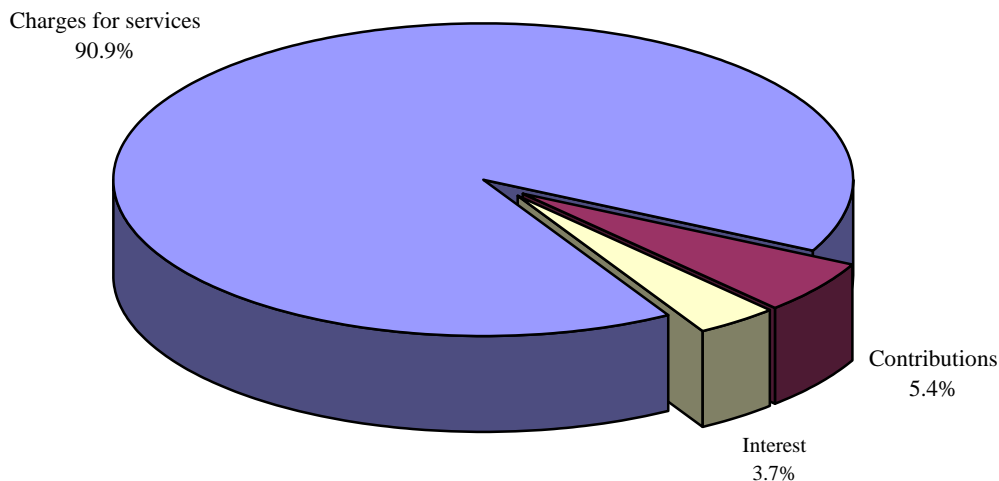
Business-type Activities:

For the year ended December 31, 2005, revenues for business-type activities were \$3.6 million. Charges for services were 90.9 percent of gross revenues, or \$3.2 million. Contributions for capital improvements were 5.4 percent of gross revenues, or 191 thousand and interest income on investments was 3.7 percent of gross revenues, or \$134 thousand.

**Business-type Activities
Program Revenues and Expenses**



**Business-type Activities
Revenue by Source**



CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The City has three business type-activities: the sewer and water systems and marina. In total, these three activities generated \$3,449,590 in program revenues, and incurred \$3,125,041 in expenses. In addition, general revenues for business-type activities were \$133,539. The City's business-type activities experienced an increase in net assets of \$458,088 for the year.

Capital Assets and Debt Administration:

At the end of 2005, the City has \$31,520,479 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings and improvements, equipment, sewer and water lines, and marina. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since January 1, 2004. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets. The value of the infrastructure assets, net of depreciation, contained in this report is \$461,152 at December 31, 2005.

Debt of \$2,740,000 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$420,000 is recorded as a liability in the business-type activities in the statement of net assets.

The City's Funds:

The fund financial statements begin on page 14 and provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2005 include the General Fund, Major Street Fund, Local Street Fund and Building Authority Debt Fund.

The City's governmental funds reported combined fund balance of \$2,422,878 for this year, a decrease of \$161,086 from last year. Included in this decrease is the General Fund's net change in fund balance of \$218,089, which consists of an excess of revenues over expenditures of \$688,814 less net transfers to other funds of \$470,725.

General Fund Budgetary Highlights:

Differences between the original and final amended budgets for revenues and expenditures were relatively minor, except:

- The City received net proceeds \$53,765 from the sale of industrial park property.
- The City received \$55,800 more in building license fees than originally budgeted.
- The City received \$34,418 in donated equipment during the year that was not included in the original budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation, such as health insurance, utility costs, and gasoline expenses.

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John E. Shay, City Manager, 400 S. Harrison Street, Ludington, Michigan 49431.

BASIC FINANCIAL STATEMENTS

CITY OF LUDINGTON

STATEMENT OF NET ASSETS

December 31, 2005

	<i>Primary Government</i>			<i>Component Unit - DDA</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 3,446,476	\$ 4,131,533	\$ 7,578,009	\$ 31,043
Receivables	3,559,567	613,909	4,173,476	26,793
Internal balances	(16,000)	16,000	-	-
Inventory	96,871	164,370	261,241	-
Prepaid expenses	77,675	54,105	131,780	-
Restricted cash and cash equivalents	-	1,018,267	1,018,267	-
Capital assets:				
Nondepreciable capital assets	163,580	867,055	1,030,635	-
Depreciable capital assets, net	6,571,050	12,590,352	19,161,402	-
Deferred charges	191,261	-	191,261	-
Total assets	<u>14,090,480</u>	<u>19,455,591</u>	<u>33,546,071</u>	<u>57,836</u>
Liabilities:				
Accounts payable and accrued expenses	92,678	10,475	103,153	-
Deferred revenue	3,243,568	88,834	3,332,402	26,527
Long-term liabilities:				
Due within one year	120,000	75,000	195,000	-
Due in more than one year	<u>2,699,230</u>	<u>384,137</u>	<u>3,083,367</u>	<u>-</u>
Total liabilities	<u>6,155,476</u>	<u>558,446</u>	<u>6,713,922</u>	<u>226,527</u>
Net assets:				
Invested in capital assets, net of related debt	3,994,630	13,037,407	17,032,037	-
Restricted for:				
Debt service	3,740	302,250	305,990	-
Streets	325,023	-	325,023	-
Nonexpendable cemetery principal	240,694	-	240,694	-
Equipment replacement	-	716,017	716,017	-
Unrestricted	<u>3,370,917</u>	<u>4,841,471</u>	<u>8,212,388</u>	<u>31,309</u>
Total net assets	<u>\$ 7,935,004</u>	<u>\$ 18,897,145</u>	<u>\$ 26,832,149</u>	<u>\$ 31,309</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES Year Ended December 31, 2005

		<i>Program Revenues</i>			<i>Net (Expense) Revenue</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	
	<i>Expenses</i>				
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 1,301,598	\$ 274,341	\$ 1,210	\$ 31,444	\$ (994,603)
Public safety	1,470,118	199,846	28,104	51,780	(1,190,388)
Public works	2,502,787	33,505	696,751	317,775	(1,454,756)
Health and welfare	145,618	27,359	72,093	-	(46,166)
Community and economic development	733,210	32,205	337,474	112,032	(251,499)
Recreation and culture	498,822	161,419	85,290	-	(252,113)
Interest on long-term debt	128,547	-	-	-	(128,547)
Total governmental activities	6,780,700	728,675	1,220,922	513,031	(4,318,072)
<i>Business-type activities:</i>					
Sewer	1,104,737	1,251,606	-	191,930	338,799
Water	1,274,447	1,326,630	-	-	52,183
Marina	745,857	679,424	-	-	(66,433)
Total business-type activities	3,125,041	3,257,660	-	191,930	324,549
Total primary government	\$ 9,905,741	\$ 3,986,335	\$ 1,220,922	\$ 704,961	\$ (3,993,523)
COMPONENT UNIT:					
Downtown development authority	\$ 33,340	\$ 6,284	\$ 324	\$ -	\$ (26,732)
Total component unit	\$ 33,340	\$ 6,284	\$ 324	\$ -	\$ (26,732)

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			<i>Component</i>
	<i>Governmental</i>	<i>Business-</i>		<i>Unit -</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>DDA</i>
		<i>Activities</i>		
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (4,318,072)	\$ 324,549	\$ (3,993,523)	\$ (26,732)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,107,197	-	3,107,197	26,205
Payment in lieu of property taxes	10,338	-	10,338	-
Franchise taxes	40,306	-	40,306	-
Grants and contributions not restricted to specific programs	838,148	-	838,148	-
Unrestricted investment earnings	131,118	133,539	264,657	1,040
Contributions to principal of permanent funds	4,310	-	4,310	-
Special item - Gain on sale of capital asset	53,765	-	53,765	-
Total general revenues, contributions, special items and transfers	4,185,182	133,539	4,318,721	27,245
Change in net assets	(132,890)	458,088	325,198	513
Net assets, beginning of year	8,067,894	18,439,057	26,506,951	30,796
Net assets, end of year	\$ 7,935,004	\$ 18,897,145	\$ 26,832,149	\$ 31,309

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2005

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Building Authority Debt Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets:						
Cash and cash equivalents	\$ 1,299,541	\$ 142,806	\$ 112,544	\$ 3,740	\$ 586,477	\$ 2,145,108
Taxes receivable	3,166,297	-	-	-	-	3,166,297
Accounts receivable	71,248	-	-	-	-	71,248
Special assessments receivable	6,557	-	-	-	-	6,557
Notes receivable	-	-	-	-	18,999	18,999
Interest receivable	15,011	1,453	1,145	-	4,172	21,781
Due from other governmental units	155,457	31,769	13,094	-	60,804	261,124
Inventory	6,494	22,212	-	-	-	28,706
Prepaid expenditures	32,701	-	-	-	24	32,725
Total assets	<u>\$ 4,753,306</u>	<u>\$ 198,240</u>	<u>\$ 126,783</u>	<u>\$ 3,740</u>	<u>\$ 670,476</u>	<u>\$ 5,752,545</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accrued expenses	\$ 7,257	\$ -	\$ -	\$ -	\$ 33,319	\$ 40,576
Due to other governmental units	2,853	-	-	-	-	2,853
Due to other funds	-	-	-	-	16,000	16,000
Deposits payable	200	-	-	-	-	200
Deferred revenue	3,248,842	-	-	-	21,196	3,270,038
Total liabilities	<u>3,259,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,515</u>	<u>3,329,667</u>
Fund balances:						
Reserved for:						
Inventory	6,494	22,212	-	-	-	28,706
Prepaid expenditures	32,701	-	-	-	24	32,725
Debt service	-	-	-	3,740	-	3,740
Capital projects	-	-	-	-	221,050	221,050
Nonexpendable cemetery principal	-	-	-	-	240,694	240,694
Unreserved:						
Undesignated, reported in:						
General fund	1,454,959	-	-	-	-	1,454,959
Special revenue funds	-	176,028	126,783	-	138,193	441,004
Total fund balances	<u>1,494,154</u>	<u>198,240</u>	<u>126,783</u>	<u>3,740</u>	<u>599,961</u>	<u>2,422,878</u>
Total liabilities and fund balances	<u>\$ 4,753,306</u>	<u>\$ 198,240</u>	<u>\$ 126,783</u>	<u>\$ 3,740</u>	<u>\$ 670,476</u>	<u>\$ 5,752,545</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

December 31, 2005

Total fund balances for governmental funds \$ 2,422,878

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	4,438,171	
Less accumulated depreciation	<u>(950,694)</u>	3,487,477

Debt proceeds in the governmental funds are shown net of issuance costs, these
costs are recorded as a deferred asset in the statement of net assets

48,422

Interest payable in the governmental activities are not payable from
current resources and therefore are not reported in the governmental
funds.

(45,348)

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities.

26,470

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Bonds payable	(2,740,000)	
Compensated absences payable	<u>(74,894)</u>	(2,814,894)

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets.

4,667,160

Net assets of governmental activities \$ 7,935,004

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Building Authority Debt Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:						
Property taxes	\$ 3,117,535	\$ -	\$ -	\$ -	\$ -	\$ 3,117,535
Licenses and permits	111,322	-	-	-	-	111,322
Federal grants	64,100	317,775	-	-	348,047	729,922
State grants	879,031	488,285	208,466	-	121,923	1,697,705
Contributions from other units	10,000	-	-	-	89,737	99,737
Charges for services	464,886	-	-	-	59,007	523,893
Fines and forfeits	40,752	-	-	-	-	40,752
Interest and rents	73,854	4,351	3,834	-	12,297	94,336
Other revenue	177,179	617	-	-	124,616	302,412
Total revenues	<u>4,938,659</u>	<u>811,028</u>	<u>212,300</u>	<u>-</u>	<u>755,627</u>	<u>6,717,614</u>
Expenditures:						
<i>Current:</i>						
General government	1,168,000	-	-	-	-	1,168,000
Public safety	1,426,741	-	-	-	3,168	1,429,909
Public works	1,043,291	1,098,473	348,930	-	-	2,490,694
Health and welfare	-	-	-	-	140,598	140,598
Community and economic development	73,059	-	-	-	679,349	752,408
Recreation and culture	354,928	-	-	-	122,498	477,426
Other	57,129	-	-	-	-	57,129
Capital outlay	126,697	-	-	-	2,147	128,844
Debt service						
Principal	-	-	-	95,000	-	95,000
Interest and fees	-	-	-	142,421	-	142,431
Total expenditures	<u>4,249,845</u>	<u>1,098,473</u>	<u>348,930</u>	<u>237,431</u>	<u>947,760</u>	<u>6,882,439</u>
Excess (deficiency) of revenues over expenditures	<u>688,814</u>	<u>(287,445)</u>	<u>(136,630)</u>	<u>(237,431)</u>	<u>(192,133)</u>	<u>(164,825)</u>
Other financing sources (uses):						
Proceeds from refunding bonds	-	-	-	2,086,578	-	2,086,578
Payment to refunded debt escrow agent	-	-	-	(2,082,839)	-	(2,082,839)
Transfers in	6,232	-	126,800	237,431	158,526	528,989
Transfers out	<u>(476,957)</u>	<u>(45,800)</u>	<u>-</u>	<u>-</u>	<u>(6,232)</u>	<u>(528,989)</u>
Total other financing sources (uses)	<u>(470,725)</u>	<u>(45,800)</u>	<u>126,800</u>	<u>241,170</u>	<u>152,294</u>	<u>3,739</u>
Net change in fund balances	218,089	(333,245)	(9,830)	3,739	(39,839)	(161,086)
Fund balances, beginning of year	<u>1,276,065</u>	<u>531,485</u>	<u>136,613</u>	<u>1</u>	<u>639,800</u>	<u>2,583,964</u>
Fund balances, end of year	<u>\$ 1,494,154</u>	<u>\$ 198,240</u>	<u>\$ 126,783</u>	<u>\$ 3,740</u>	<u>\$ 599,961</u>	<u>\$ 2,422,878</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ (161,086)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	119,665	
Less depreciation expense	<u>(156,357)</u>	(36,692)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds. (1,873)

The cost to advance refund a long-term debt is a revenue on the governmental is not the same as the book value of the retired debt, this difference is recorded as a feferred asset in the statement of net assets 142,839

Proceeds from the issuance of long-term debt is a revenue in the governmental funds, but are recorded as long-term liabilities in the statement of net assets (2,086,578)

Repayments of principal on bonds are expenditures in governmental funds, but the payments reduce long-term liabilities in the statement of net assets 2,035,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	2,080	
Change in accrued interest on bonds payable	<u>13,884</u>	15,964

The net revenue (expense) of the internal service fund is reported with governmental activities. (40,464)

Change in net assets of governmental activities \$ (132,890)

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

PROPRIETARY FUNDS **STATEMENT OF NET ASSETS** December 31, 2005

	<i>Business-type Activities - Enterprise Funds</i>				<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	<i>Internal Service Fund-Motor Pool</i>
Assets:					
<i>Current assets:</i>					
Cash and investments	\$ 750,343	\$ 2,365,472	\$ 1,015,718	\$ 4,131,533	\$ 1,301,368
Accounts receivable	260,350	284,346	223	544,919	-
Interest receivable	13,219	29,155	10,331	52,705	13,237
Due from other governmental units	16,285	-	-	16,285	324
Due from other funds	16,000	-	-	16,000	-
Inventory	47,123	100,213	17,034	164,370	68,165
Prepaid expenses	23,174	23,533	7,398	54,105	44,950
Total current assets	<u>1,126,494</u>	<u>2,802,719</u>	<u>1,050,704</u>	<u>4,979,917</u>	<u>1,428,044</u>
<i>Noncurrent assets:</i>					
Restricted cash and investments	549,254	469,013	-	1,018,267	-
Capital assets:					
Nondepreciable capital assets	72,415	3,247	791,393	867,055	-
Depreciable capital assets, net	<u>6,131,049</u>	<u>5,129,619</u>	<u>1,329,684</u>	<u>12,590,352</u>	<u>3,247,153</u>
Total noncurrent assets	<u>6,752,718</u>	<u>5,601,879</u>	<u>2,121,077</u>	<u>14,475,674</u>	<u>3,247,153</u>
Total assets	<u>7,879,212</u>	<u>8,404,598</u>	<u>3,171,781</u>	<u>19,455,591</u>	<u>4,675,197</u>
Liabilities:					
<i>Current liabilities:</i>					
Accounts payable and accrued expenses	612	5,016	-	5,628	3,701
Due to other governmental units	-	235	312	547	-
Deposits payable	-	4,300	-	4,300	-
Deferred revenue	-	-	88,834	88,834	-
Current portion of long-term debt	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>-</u>
Total current liabilities	<u>612</u>	<u>84,551</u>	<u>89,146</u>	<u>174,309</u>	<u>3,701</u>
<i>Noncurrent liabilities:</i>					
Compensated absences payable	12,712	23,771	2,654	39,137	4,336
Long-term debt	<u>90,000</u>	<u>255,000</u>	<u>-</u>	<u>345,000</u>	<u>-</u>
Total noncurrent liabilities	<u>102,712</u>	<u>278,771</u>	<u>2,654</u>	<u>384,137</u>	<u>4,336</u>
Total liabilities	<u>103,324</u>	<u>363,322</u>	<u>91,800</u>	<u>558,446</u>	<u>8,037</u>
Net assets:					
Invested in capital assets, net of related debt	6,113,464	4,802,866	2,121,077	13,037,407	3,247,153
Restricted for:					
Debt service	202,250	100,000	-	302,250	-
Equipment replacement	347,004	369,013	-	716,017	-
Unrestricted	<u>1,113,170</u>	<u>2,769,397</u>	<u>958,904</u>	<u>48,414,371</u>	<u>1,420,007</u>
Total net assets	<u>\$ 7,775,888</u>	<u>\$ 8,041,276</u>	<u>\$ 3,079,981</u>	<u>\$ 18,897,145</u>	<u>\$ 4,667,160</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2005

	<i>Business-type Activities - Enterprise Funds</i>				<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	<i>Internal Service Fund-Motor Pool</i>
Operating revenues:					
Charges for services	\$ 1,249,000	\$ 1,287,052	\$ 679,421	\$ 3,215,473	\$ -
Equipment rental	-	-	-	-	675,450
Other	2,606	9,578	3	12,187	89,005
Total operating revenues	1,251,606	1,296,630	679,424	3,227,660	764,455
Operating expenses:					
Personnel	275,986	447,319	98,786	822,091	125,762
Fringe benefits	125,785	203,079	29,042	357,906	56,468
Supplies	79,422	53,988	305,568	438,978	177,959
Contracted services	129,723	74,748	105,405	309,876	25,001
Administrative expense	64,000	64,000	37,900	165,900	47,900
Telephone	3,323	7,280	3,426	14,029	2,257
Transportation	478	48	142	668	131
Dues and membership fees	322	320	290	932	-
Education and training	1,145	1,217	23	2,385	95
Printing and publishing	-	-	3,142	3,142	-
Insurance	42,805	42,805	11,890	97,500	83,233
Utilities	141,525	99,549	25,248	266,322	42,427
Repair and maintenance	37,556	29,626	8,480	75,662	69,537
Equipment rental	33,654	95,054	7,566	136,274	-
Other services and supplies	17	66	26,092	26,175	80
Depreciation	160,031	139,408	82,857	382,296	212,538
Total operating expenses	1,095,772	1,258,507	745,857	3,100,136	843,388
Operating income (loss)	155,834	38,123	(66,433)	127,524	(78,933)

continued

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended December 31, 2005

	<i>Major Enterprise Funds</i>				<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	<i>Internal Service Fund- Motor Pool</i>
Non-operating revenues (expenses):					
Interest income	41,203	61,822	30,514	133,539	38,469
Rental income	-	30,000	-	30,000	-
Contribution for sewer project	191,930	-	-	191,930	-
Interest expense	(8,965)	(15,940)	-	(24,905)	-
Total non-operating revenues (expenses)	224,168	75,882	30,514	330,564	38,469
Net income (loss)	380,002	114,005	(35,919)	458,088	(40,464)
Net assets, beginning of year	7,395,886	7,927,271	3,115,900	18,439,057	4,707,624
Net assets, end of year	\$ 7,775,888	\$ 8,041,276	\$ 3,079,981	\$ 18,897,145	\$ 4,667,160

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

	<i>Business-type Activities - Enterprise Funds</i>				<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	<i>Internal Service Fund-Motor Pool</i>
Cash flows from operating activities:					
Cash received from customers	\$ 1,218,259	\$ 1,296,086	\$ 687,316	\$ 3,201,661	\$ 88,681
Cash received from paid for interfund services	-	-	-	-	675,450
Cash payments to employees	(274,059)	(445,292)	(99,939)	(819,290)	(124,745)
Cash payments to suppliers for goods and services	(652,871)	(677,977)	(574,614)	(1,905,462)	(521,033)
Net cash provided (used) by operating activities	291,329	172,817	12,763	476,909	118,353
Cash flows from capital and related financing activities:					
Grant	175,645	-	-	175,645	-
Acquisition and construction of capital assets	(306,187)	(72,612)	(4,284)	(383,083)	(69,387)
Principal payments	(85,000)	(70,000)	-	(155,000)	-
Interest paid	(8,965)	(15,940)	-	(24,905)	-
Net cash provided (used) by capital and related financing activities	(224,507)	(158,552)	(4,284)	(387,343)	(69,387)
Cash flows from investing activities:					
Interest received	35,563	50,077	26,393	112,033	32,952
Rent received	-	30,000	-	30,000	-
Net cash provided by investing activities	35,563	80,077	26,393	142,033	32,952
Net increase (decrease) in cash and cash equivalents	102,385	94,342	34,872	231,599	81,918
Cash and cash equivalents, beginning of year	1,197,212	2,740,143	980,846	4,918,201	1,219,450
Cash and cash equivalents, end of year	\$ 1,299,597	\$ 2,834,485	\$ 1,015,718	\$ 5,149,800	\$ 1,301,368

continued

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended December 31, 2005

	<i>Major Enterprise Funds</i>				<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	<i>Internal Service Fund- Motor Pool</i>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 155,834	\$ 38,123	\$ (66,433)	\$ 127,524	\$ (78,933)
Adjustments:					
Depreciation	160,031	139,408	82,857	382,296	38
Changes in assets and liabilities:					
Accounts receivable	(17,347)	(2,444)	727	(19,064)	-
Due from other governmental units	-	-	-	-	(324)
Due from other funds	(16,000)	-	-	(16,000)	-
Inventory	5,967	8,991	3,320	11,638	19,084
Prepaid expenses	4,393	(752)	(562)	3,079	(1,992)
Accounts payable and accrued expenses	(3,476)	(14,671)	(7,053)	(25,200)	5,131
Due to other governmental units	-	235	312	547	-
Deposits payable	-	1,900	-	1,900	-
Deferred revenue	-	-	7,388	7,388	-
Compensated absences payable	1,927	2,027	(1,153)	2,801	1,017
Net cash provided (used) by operating activities	<u>\$ 291,329</u>	<u>\$ 172,817</u>	<u>\$ 12,763</u>	<u>\$ 476,909</u>	<u>\$ 118,353</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

December 31, 2005

	<i>Police Pension Trust Fund</i>	<i>Agency Funds</i>	<i>Total</i>
Assets:			
Cash and investments	\$ 3,333,649	\$ 4,526,904	\$ 7,860,553
Taxes receivable	218,895	-	218,895
Prepaid expense	-	-	-
Total assets	<u>3,552,544</u>	<u>4,526,904</u>	<u>8,079,448</u>
Liabilities:			
Accounts payable	-	526,638	526,638
Undistributed tax collection	-	4,000,266	4,000,266
Deferred revenue	<u>218,895</u>	<u>-</u>	<u>218,895</u>
Total liabilities	<u>218,895</u>	<u>4,526,904</u>	<u>4,745,799</u>
Net Assets:			
Held in trust for pension benefits	<u>3,178,565</u>	<u>-</u>	<u>3,178,565</u>
Total net assets	<u><u>\$ 3,178,565</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,178,565</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET ASSETS

Year Ended December 31, 2005

	<i>Police Pension Trust Fund</i>
Additions:	
Property taxes	\$ 213,021
Employee and other contributions	39,443
Investment income (loss)	<u>42,807</u>
Total additions	<u>295,271</u>
Deductions:	
Benefit payments	<u>385,148</u>
Total deductions	<u>385,148</u>
Net increase (decrease)	(89,877)
Net assets, beginning of year	<u>3,268,442</u>
Net assets, end of year	<u><u>\$ 3,178,565</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ludington was incorporated in 1873 under the provisions of the Home Rule Act of the State of Michigan. The City operates a Council-Manager form of government and provides the following services as authorized by its charter: general administrative services, public safety, highway and street maintenance, health, culture, recreation and other governmental functions.

The accounting policies of the City of Ludington conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Blended Component Unit

Building Authority – The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were a part of the primary government because its primary purpose is to finance and construct the City's public buildings. The Building Authority is reported as a debt service fund.

Discretely Presented Component Unit

Downtown Development Authority - The Downtown Development Authority (DDA) is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The DDA was created to prevent and correct deterioration, encourage historical preservation, and promote economic growth within the downtown district. The DDA's board is appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Joint Ventures - The City participates in the "Western Mason County Fire District Authority," a joint venture with the Townships of Hamlin and Pere Marquette. The Authority was established on May 20, 1996 in accordance with state law 1988 P.A. 57 for the purpose of forming a joint fire commission for uniform and orderly control of fire protection, fire department functions (including vehicle purchase and insurance coverage), and financing within the territorial limits of the City of Ludington and the Townships of Hamlin and Pere Marquette. Complete financial statements for the Authority can be obtained from Pere Marquette Township at 1699 South Pere Marquette Highway, Ludington, Michigan.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

The ***General Fund*** is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The ***Major Street Fund*** is used to account for the maintenance and construction of the City's major street system.

The ***Local Street Fund*** is used to account for the maintenance and construction of the City's local street system.

The ***Building Authority Debt Fund*** is used to account for the accumulation of resources for, and the payment of the bond principal, interest, and related costs.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

The City reports the following major enterprise funds:

The ***Sewer Fund*** is used to account for the revenues and expenses for the operation of a sewer system.

The ***Water Fund*** is used to account for the revenues and expenses for the operation of a water system.

The ***Marina Fund*** is used to account for the revenues and expenses for the operation of a marina.

Additionally, the City reports the following fiduciary fund types:

The ***Police Pension Trust Fund*** accounts for the activities of the City's police retirement system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Deposits and Investments – Cash includes cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Buildings and improvements	25-75 years
Furniture and equipment	5-10 years
Infrastructure	25 years
Land improvements	20-50 years
Machinery and equipment	5-33 years
Utility systems and plants	25-75 years

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused sick and vacation days. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Property taxes attach as enforceable liens on properties as of December 31. The related property taxes are levied on September 1 and are payable from the date of levy through October 9 and are recognized as revenue the following year. The City bills and collects its own property taxes and also taxes for the county, school district, community college, the Ludington Area Mass Transit Authority, and the intermediate school district. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Revenues for 2005 include property taxes levied in 2004 but appropriated by a City ordinance to finance 2005 operations. Property taxes levied in 2005 for the operations of 2006 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and deferred revenue at December 31, 2005.

In 2004, the City levied property taxes on an assessed property tax value of \$210,388,636. Taxes levied consisted of 11.5675 mills for the City's operating purposes, 2.7762 mills for refuse services, and .9961 mills for police pension.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1 of each year, the City Manager submits to the City Council a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. During the month of November, the City Council holds open meetings to review the budget in detail and to obtain taxpayer comments.
3. At the first Council meeting in December, the budget is legally enacted by adoption of the City Council.
4. Any revision that alters the total expenditures of any fund must be approved by the City.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, the special revenue funds, and debt service funds. Formal budgetary integration is not employed for other funds, but informational summaries are prepared for the enterprise, the internal service and other funds to serve as a management control device and are presented to the City Council for consideration.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were in excess of the amounts budgeted.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000, reported in the General Fund, is as follows:

Cumulative surplus at January 1, 2005		\$	-
Current year building permit revenue			70,881
Related expenses:			
Direct costs	85,481		
Estimated indirect costs	-		
Total construction code expenses			<u>85,481</u>
Cumulative surplus at December 31, 2005		\$	<u>-</u>

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Police Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity contracts, real estate leased to public entities, mortgages, real estate (if the trust funds assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated eight banks for the deposit of its funds. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997. The City's deposits and investments have been made in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are presented in more detail as follows:

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$11,939,068 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,005,461 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government securities	\$ 1,749,755	Counterparty
Mutual funds - Police Pension Trust	2,852,470	Counterparty

Interest Rate Risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government securities	\$ 1,749,755	1.96 years

Credit Risk:

As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bond mutual funds - Police Pension Trust	\$ 1,208,884	Not Rated	N/A

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Concentration of Credit Risk:

The City places limits on the amount the City may invest in any one issuer. At December 31, 2005, there were no investments in any one issuer (other than the U.S. government and mutual funds) that exceeded more than 5 percent of total investments.

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

There are a number of limitations and restrictions contained in the various bond indentures, including requirements to maintain certain restricted assets. The City is in compliance with all significant provisions of the bond indentures.

At December 31, 2005 the City had these accounts established and had restricted cash as follows:

	<i><u>Cash and Investments</u></i>
Sewer Fund:	
Bond Reserve	\$ 110,000
Bond and Interest Redemption	92,250
Equipment Replacement	347,004
Water Fund:	
Bond Reserve	100,000
Equipment Replacement	<u>369,013</u>
	<u>\$ 1,018,267</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

NOTE 5: CAPITAL ASSETS

Primary Government capital asset activity for the year ended December 31, 2005 was as follows:

	<i><u>Beginning Balance</u></i>	<i><u>Additions</u></i>	<i><u>Retirements</u></i>	<i><u>Ending Balance</u></i>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 163,580	\$ -	\$ -	\$ 163,580
Depreciable capital assets:				
Buildings and improvements	4,877,290	7,893	-	4,885,183
Furniture and equipment	171,170	-	-	171,170
Infrastructure	480,367	-	-	480,367
Land improvements	226,690	-	-	226,690
Machinery and equipment	3,931,343	181,159	(11,853)	4,100,649
Total depreciable capital assets	9,686,860	189,052	(11,853)	9,864,059
Accumulated depreciation	(2,935,967)	(368,895)	11,853	(3,293,009)
Depreciable capital assets, net	6,750,893	(179,843)	-	6,571,050
Governmental activities, capital assets, net	<u>\$ 6,914,473</u>	<u>\$ (179,843)</u>	<u>\$ -</u>	<u>\$ 6,734,630</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 867,055	\$ -	\$ -	\$ 867,055
Depreciable capital assets				
Buildings and improvements	4,076,142	-	-	4,076,142
Land improvements	2,065,280	-	-	2,065,280
Machinery and equipment	773,823	22,439	-	796,262
Utility systems and plants	13,625,339	360,644	-	13,985,983
Total depreciable capital assets	20,540,584	383,083	-	20,923,667
Accumulated depreciation	(7,951,019)	(382,296)	-	(8,333,315)
Depreciable capital assets, net	12,589,565	787	-	12,590,352
Business-type activities, capital assets, net	<u>\$ 13,456,620</u>	<u>\$ 787</u>	<u>\$ -</u>	<u>\$ 13,457,407</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 71,692
Public safety	76,270
Public works	195,869
Health and welfare	4,932
Community and economic development	802
Recreation and culture	<u>19,330</u>
Total governmental activities	<u>\$ 368,895</u>

Business-type activities:

Sewer	\$ 160,031
Water	139,408
Marina	<u>82,857</u>
Total business-type activities	<u>\$ 382,296</u>

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Primary Government:		
Grant, program income, and general revenue payments received prior to meeting all eligibility requirements	<u>\$ -</u>	<u>\$ 3,243,568</u>
Component Unit:		
Grant, program income, and general revenue payments received prior to meeting all eligibility requirements	<u>\$ -</u>	<u>\$ 26,527</u>

NOTE 7: LONG-TERM LIABILITIES

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Long-term liabilities at December 31, 2005 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
<u>Governmental Activities</u>					
<i>General Obligation Bonds:</i>					
2000 Issue - Building Authority Bonds					
Serial Current Interest Bonds	8/1/04-8/1/10	5.125-5.3%	\$100,000-145,000	\$ 2,640,000	\$ 605,000
2005 Issue - Building Authority					
Refunding Bonds					
Serial Current Interest Bonds	8/1/06-8/1/19	3.0-4.0%	\$20,000-285,000	2,135,000	2,135,000
<u>Business-type Activities</u>					
<i>Revenue Bonds:</i>					
1996 Issue - Sewage Disposal System					
Serial Current Interest Bonds	1/1/97-1/1/07	4.7-5.0%	\$75,000-90,000	700,000	90,000
1998 Issue - Water Supply System					
Serial Current Interest Bonds	2/1/99-2/1/09	4.25-4.3%	\$65,000-90,000	700,000	330,000

The following is a summary of long-term liabilities transactions for the year ended December 31, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds:					
2000 Issue	\$ 2,640,000	\$ -	\$ (2,035,000)	\$ 605,000	\$ 100,000
2005 Issue	-	2,135,000	-	2,135,000	20,000
Compensated absences	80,293	-	(1,063)	79,230	-
Total governmental activities-long-term liabilities	<u>\$ 2,720,293</u>	<u>\$ 2,135,000</u>	<u>\$ (2,036,063)</u>	<u>\$ 2,819,230</u>	<u>\$ 120,000</u>
Business-type activities:					
Revenue Bonds:					
1996 Issue	\$ 175,000	\$ -	\$ (85,000)	\$ 90,000	\$ -
1998 Issue	400,000	-	(70,000)	330,000	75,000
Compensated absences	36,336	2,801	-	39,137	-
Total business-type activities-long-term liabilities	<u>\$ 611,336</u>	<u>\$ 2,801</u>	<u>\$ (155,000)</u>	<u>\$ 459,137</u>	<u>\$ 75,000</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<i>Year Ended December 31,</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2006	\$ 120,000	\$ 113,061	\$ 233,061	\$ 165,000	\$ 14,808	\$ 179,808
2007	130,000	107,563	237,563	80,000	9,246	89,246
2008	140,000	101,275	241,275	85,000	5,697	90,697
2009	150,000	94,475	244,475	90,000	1,935	91,935
2010	165,000	86,950	251,950	-	-	-
2011-2015	995,000	322,950	1,317,950	-	-	-
2016-2019	1,040,000	104,485	1,144,485	-	-	-
	<u>\$ 2,740,000</u>	<u>\$ 930,759</u>	<u>\$ 3,670,759</u>	<u>\$ 420,000</u>	<u>\$ 31,686</u>	<u>\$ 451,686</u>

The City has an installment purchase contract payable to West Shore Bank and Fifth Third Bank. The balance owed on these contracts as of December 31, 2005 is \$210,275. These liabilities were incurred for the purchase of fire truck and equipment for the Western Mason County Fire Authority (a joint venture). The fire truck and equipment, as well as the corresponding liabilities, have been assigned to the Authority and are not included in the financial statements of the City.

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Receivables:		
Property taxes	\$ 3,166,297	\$ -
Special assessments	6,557	-
Interest	35,018	52,705
Accounts	71,248	544,919
Notes	18,999	-
Intergovernmental	261,448	16,285
Total receivables	<u>\$ 3,559,567</u>	<u>\$ 613,909</u>
Accounts payable and accrued expenses:		
Accounts	\$ 44,277	\$ 5,628
Interest	45,348	-
Deposits payable	200	4,300
Intergovernmental	2,853	547
Total accounts payable and accrued expenses	<u>\$ 92,678</u>	<u>\$ 10,475</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

NOTE 10: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at September 30, 2005 is as follows reported in the fund financial statements:

<i><u>Receivable Fund</u></i>	<i><u>Payable Fund</u></i>	<i><u>Amount</u></i>
Sewer Fund	1984 Building Rehab Fund	<u>\$ 16,000</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

	<u>Transfer From</u>			
	<i><u>General Fund</u></i>	<i><u>Major</u></i>	<i><u>Cemetery Perpetual Care</u></i>	<i><u>Total</u></i>
<u>Transfer To</u>				
General Fund	\$ -	\$ -	\$ 6,232	\$ 6,232
Local Street	81,000	45,800	-	126,800
Nonmajor Governmental				
Recreation	45,100	-	-	45,100
Senior Center	41,200	-	-	41,200
Waterfront Development	72,226	-	-	72,226
Building Authority Bonds	<u>237,431</u>	<u>-</u>	<u>-</u>	<u>237,431</u>
	<u>\$ 476,957</u>	<u>\$ 45,800</u>	<u>\$ 6,232</u>	<u>\$ 528,989</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City manages its liability, property, and worker's compensation risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property, liability, and worker compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City contributes to the Michigan Municipal Employees' Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental units in the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries.

All full-time employees, except policemen, are eligible to participate in the plan. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 [MSA 5.333(a); MCLA 46.12 (a)], as amended, State of Michigan. MERS is regulated under Act No. 220 of the Public Acts of 1996, as emended, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City Council and personnel policy, which does not require employees to contribute to the plan. The City of Ludington is required to contribute to an actuarially determined rate; the current rate was 16.5 percent of eligible payroll based on the December 31, 2003 valuation.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Annual Pension Costs – For year ended December 31, 2005, the City's annual pension cost of \$325,705 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual pension cost	\$ 325,705	\$ 332,936	\$ 302,018
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

City of Ludington Police Retirement System:

Plan Description - The City also operates the City of Ludington Police Retirement System, a single-employer retirement plan established under Act 345, PA of 1937 of the State of Michigan. The plan covers all full-time police employees of the City and is funded through an annual tax levy. The plan is a part of the City of Ludington reporting entity and its financial statements are included in the City's Statement of Net Assets for Fiduciary Funds.

Membership in the plan consisted of the following at December 31, 2005:

Retirees and Beneficiaries receiving benefits	15
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>15</u>
Total	<u>30</u>

The City of Ludington Police Retirement System provides retirement benefits as well as death, disability, and health benefits. All benefits vest after 10 years of credited service. Employees who retire at or after age 50 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly, in an amount equal to 2.5% of their average compensation for every year of credited service. The average is computed using the three highest compensated years out of last five years of employment. If an employee leaves covered employment or dies before ten years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

Summary of Significant Accounting Policies and Asset Matters - The financial statements of the City of Ludington Police Retirement System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Method Used to Value Investments - Investments of the plan are reported at fair value based on provided market values. Investment income is recognized as earned. The net appreciation in the fair value of investments is recognized as additions to assets. Gains and losses on the sale of securities are recognized on the transaction date. The plan's cash and investments at December 31, 2005 were as follows:

Cash and cash equivalents	\$ 481,179
Investments - Mutual funds	<u>2,852,470</u>
	<u>\$ 3,333,649</u>

Contributions - The obligation to contribute to the system for the police employees was established by negotiations between the City Council and the police bargaining unit (union contract). The contract requires the employees to contribute to the plan, at a rate of 5% of eligible payroll. The City is required to contribute based on a property tax levy of .9961 mills.

For the year ended December 31, 2005, the City made contributions of \$213,021 and the police employees contributed \$39,443.

Three year trend information as of December 31, follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual pension cost	\$ 213,021	\$ 165,652	\$ 136,601
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Health Benefits - The City provides health insurance benefits as part of its police retirement plan. These benefits are funded by investment income. The plan's health care costs for the year ended December 31, 2005 was \$43,459.

Post Employment Benefits:

According to the police employment contracts, the City provides police persons with partial payment toward the cost of health insurance after they qualify to retire and are retired from City employment. The City pays 50% of the health insurance cost up to a maximum of \$200 per month for those retired after 1993. Those who retired between 1989 through 1993 receive a maximum paid benefit of \$100 per month. Also, for other employees who retire with 20 or more years of service, the City will pay \$75 to \$200 per month. Elected officials who retire with 25 or more years of service will receive a maximum paid benefit of \$250 per month.

The City is using a pay-as-you-go method for financing this benefit. Currently there are fourteen participants eligible to receive this benefit. During 2005, the City expended \$28,754 for this benefit in addition to the \$43,459 paid by the police pension plan.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

Deferred Compensation Plan:

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The City adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The City has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning January 1, 2009.

NOTE 13: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for inventory – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation.

Reserved for debt service – This reserve was created to indicate that the portion of fund balance represented by debt service is not available for appropriation.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

NOTE 14: FEDERAL GRANTS

During 2005, the City received a federal grant in the amount of \$317,775 passed through the Michigan Department of Treasury (MDOT) for a contracted project in its Major Street Fund. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. Contracted projects are not subject to single audit requirements.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

NOTE 15: DEFEASED DEBT

On August 2, 2005, the City of Ludington issued general obligation refunding bonds of \$2,135,000 with interest rates ranging from 3 to 4 percent to advance refund the original general obligation bonds with interest rates ranging from 5.125 to 5.5 percent with a par value of \$1,940,000. The original bonds mature on August 1, 2019, and are callable on August 1, 2011. The general obligation refunding bonds were issued at par plus a reoffering premium of \$18,794 and, after paying issuance costs of \$67,216, the net proceeds were \$2,086,578. The net proceeds from the issuance of the general obligation refunding bonds, less excess proceeds of \$3,739, were deposited in an irrevocable trust with an escrow agent and used to purchase U.S. government securities to provide for debt service payments on the callable portion of the original bonds until they are called on August 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the original term bonds were removed from the City of Ludington's government-wide financial statements.

As a result of the advance refunding, the City reduced its total debt service requirements by \$93,101, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$72,719.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF LUDINGTON

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended December 31, 2005

Defined Benefit Pension Plans:

Michigan Municipal Employees' Retirement System:

Actuarial Valuation Date	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>
Actuarial Value of Assets	\$ 11,178,526	\$ 10,756,511	\$ 10,334,996
Actuarial Accrued Liability (AAL)	13,268,599	12,710,394	12,286,283
Unfunded AAL (UAAL)	2,090,073	1,953,883	1,951,287
Funded Ratio	84%	85%	84%
Covered Payroll	1,968,116	1,987,341	1,864,186
UAAL as percentage of covered payroll	106%	98%	105%

City of Ludington Police Retirement System:

Actuarial Valuation Date	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>
Actuarial Value of Assets	\$ 3,246,394	\$ 3,390,455	\$ 3,592,953
Actuarial Accrued Liability (AAL)	4,999,933	5,004,646	4,624,073
Unfunded AAL (UAAL)	1,753,539	1,614,191	1,031,120
Funded Ratio	65%	68%	78%
Covered Payroll	735,711	740,795	698,690
UAAL as percentage of covered payroll	238%	218%	148%

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Property taxes	\$ 3,071,500	\$ 3,116,500	\$ 3,117,535	\$ 1,035
Licenses and permits	51,800	111,100	111,322	222
Federal grants	53,800	63,800	64,100	300
State grants	868,500	885,444	879,031	(6,413)
Contributions from other units	10,000	10,000	10,000	-
Charges for services	435,000	465,000	464,886	(114)
Fines and forfeits	30,000	40,000	40,752	752
Interest and rents	46,700	66,700	73,854	7,154
Other revenue	83,600	178,274	177,179	(1,095)
Total revenues	<u>4,650,900</u>	<u>4,936,818</u>	<u>4,938,659</u>	<u>1,841</u>
Expenditures:				
<i>Current:</i>				
General government	1,182,300	1,171,900	1,168,000	(3,900)
Public safety	1,390,900	1,427,300	1,426,741	(559)
Public works	1,074,700	1,044,000	1,043,291	(709)
Community and economic development	70,700	74,200	73,059	(1,141)
Recreation and culture	398,000	355,000	354,928	(72)
Other	56,000	57,200	57,129	(71)
Capital outlay	77,500	129,618	126,697	(2,921)
Total expenditures	<u>4,250,100</u>	<u>4,259,218</u>	<u>4,249,845</u>	<u>(9,373)</u>
Excess (deficiency) of revenues over expenditures	<u>400,800</u>	<u>677,600</u>	<u>688,814</u>	<u>11,214</u>
Other financing sources (uses):				
Transfers in	4,000	4,000	6,232	2,232
Transfers out	<u>(404,800)</u>	<u>(477,000)</u>	<u>(476,957)</u>	<u>(43)</u>
Total other financing sources (uses)	<u>(400,800)</u>	<u>(473,000)</u>	<u>(470,725)</u>	<u>2,189</u>
Net change in fund balance	-	204,600	218,089	13,403
Fund balance, beginning of year	<u>1,276,065</u>	<u>1,276,065</u>	<u>1,276,065</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,276,065</u>	<u>\$ 1,480,665</u>	<u>\$ 1,494,154</u>	<u>\$ 13,403</u>

CITY OF LUDINGTON

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Federal grants	\$ -	\$ 317,775	\$ 317,775	\$ -
State grants	438,000	485,000	488,285	3,285
Interest and rents	8,000	4,500	4,351	(149)
Other revenue	1,500	1,500	617	(883)
Total revenues	447,500	808,775	811,028	2,253
Expenditures:				
<i>Current:</i>				
Public works	546,800	1,102,475	1,098,473	(4,002)
Total expenditures	546,800	1,102,475	1,098,473	(4,002)
Excess (deficiency) of revenues over expenditures	(99,300)	(293,700)	(287,445)	6,255
Other financing sources (uses):				
Transfers out	(95,800)	(45,800)	(45,800)	-
Total other financing sources (uses)	(95,800)	(45,800)	(45,800)	-
Net change in fund balance	(195,100)	(339,500)	(333,245)	6,255
Fund balance, beginning of year	531,485	531,485	531,485	-
Fund balance, end of year	\$ 336,385	\$ 191,985	\$ 198,240	\$ 6,255

CITY OF LUDINGTON

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
State grants	180,900	206,900	208,466	1,566
Interest and rents	1,000	4,000	3,834	(166)
Total revenues	181,900	210,900	212,300	1,400
Expenditures:				
<i>Current:</i>				
Public works	396,100	350,900	348,930	(1,970)
Total expenditures	396,100	350,900	348,930	(1,970)
Excess (deficiency) of revenues over expenditures	(214,200)	(140,000)	(136,630)	3,370
Other financing sources (uses):				
Transfers in	176,800	226,800	126,800	(100,000)
Total other financing sources (uses)	176,800	226,800	126,800	(100,000)
Net change in fund balance	(37,400)	86,800	(9,830)	(96,630)
Fund balance, beginning of year	136,613	136,613	136,613	-
Fund balance, end of year	\$ 99,213	\$ 223,413	\$ 126,783	\$ (96,630)

CITY OF LUDINGTON

DEBT SERVICE FUND – BUILDING AUTHORITY BOND FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Revenues:				
Interest earned	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Debt service:				
Principal	95,000	95,000	95,000	-
Interest and fees	142,500	142,431	142,431	-
Total expenditures	237,500	237,431	237,431	-
Excess (deficiency) of revenues over expenditures	(237,500)	(237,431)	(237,431)	-
Other financing sources:				
Proceeds from banks/loans/notes	-	2,082,839	2,086,578	3,739
Payment to refund debt escrow agent	-	(2,082,839)	(2,082,839)	-
Transfers in	237,500	237,431	237,431	-
Total other financing sources	237,500	237,431	241,170	3,739
Net change in fund balance	-	-	3,739	3,739
Fund balance, beginning of year	1	1	1	-
Fund balance, end of year	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 3,740</u>	<u>\$ 3,739</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended December 31, 2005

Current taxes:

Property taxes	\$ 3,057,593
Penalties and interest on taxes	49,604
Payment in lieu of taxes	10,338
	<u>3,117,535</u>

Licenses and permits:

Nonbusiness licenses and permits	71,016
CATV franchise fees	40,306
	<u>111,322</u>

Federal grants:

Police	15,294
FEMA	48,806
	<u>64,100</u>

State grants:

Liquor license fees	9,439
State revenue sharing - sales tax	838,148
State contribution - Election equipment	31,444
	<u>879,031</u>

Contribution from other units:

Downtown Development Authority - administration charges	10,000
	<u>10,000</u>

Charges for services:

Recreation fees	53,565
Cemetery fees	38,850
Police services and reports	71,979
Fire runs	13,824
Zoning/Variance/Appeals fees	2,275
Other	12,093
Charges to other funds	272,300
	<u>464,886</u>

Fines and forfeitures:

Parking fines	16,220
Ordinance fines	24,532
	<u>40,752</u>

Interest and rents:

Interest	72,167
Rents	1,687
	<u>73,854</u>

continued

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF REVENUES, CONTINUED

Year Ended December 31, 2005

Other revenue:

Special assessments	1,647
Sale of fixed assets	53,765
Cemetery lots/perpetual care	30,255
Contributions and donations	4,184
Reimbursements	15,556
Sidewalk construction	33,459
Commissions	38,313
	<u>177,179</u>

Total revenues	4,938,659
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Other Financing Sources:

Transfers from other funds	<u>6,232</u>
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Total revenues and other financing sources	<u><u>\$ 4,944,891</u></u>
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CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended December 31, 2005

General Government:

Mayor and Council:

Personnel	\$ 30,000
Fringe benefits	3,000
Supplies	551
Telephone	2,880
Transportation	486
Dues and memberships	125
Conferences and workshops	765
Other	1,248
	<u>39,055</u>

Manager:

Personnel	120,900
Fringe benefits	57,377
Supplies	1,672
Contracted services	8,669
Telephone	1,464
Transportation	4,200
Dues and memberships	5,164
Conferences and workshops	1,523
Other	581
	<u>201,550</u>

Clerk:

Personnel	146,886
Fringe benefits	65,934
Supplies	9,554
Contracted services	31,610
Telephone	6,104
Transportation	22
Dues and memberships	170
Conferences and workshops	53
Printing and publications	6,942
Equipment rental	3,048
Other	2,647
	<u>272,970</u>

Board of Review:

Personnel	1,440
Fringe benefits	115
Supplies	83
Transportation	20
Conferences and workshops	30
Printing and publications	486
Other	142
	<u>2,316</u>

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2005

General Government, continued:

Treasurer:

Personnel	\$ 76,439
Fringe benefits	34,555
Supplies	1,796
Contracted services	10,552
Telephone	412
Dues and memberships	125
Printing and publications	84
Other	80
	<u>124,043</u>

Assessor:

Personnel	79,392
Fringe benefits	33,727
Supplies	3,103
Contracted services	23,595
Telephone	360
Transportation	305
Dues and memberships	815
Conferences and workshops	1,380
Equipment rental	1,307
	<u>143,984</u>

Elections:

Personnel	10,082
Fringe benefits	202
Supplies	2,852
Contracted services	932
Printing and publications	862
	<u>14,930</u>

Buildings and Grounds:

Personnel	51,207
Fringe benefits	22,631
Supplies	7,199
Contracted services	10,723
Telephone	380
Utilities	30,056
Repairs and maintenance	8,031
Equipment rental	19,150
Other	23
	<u>149,400</u>

Attorney:

Contracted services	<u>57,609</u>
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CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2005

General Government, continued:

Cemetery:

Personnel	76,993
Fringe benefits	33,858
Supplies	4,297
Contracted services	7,841
Telephone	433
Dues and memberships	30
Utilities	14,282
Repairs and maintenance	3,864
Equipment rental	20,545
	<u>162,143</u>

Total general government	<u>1,168,000</u>
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Public Safety:

Police:

Personnel	826,746
Fringe benefits	223,041
Supplies	9,045
Contracted services	12,925
Telephone	7,367
Transportation	753
Conferences and workshops	6,546
Repairs and maintenance	2,077
Equipment rental	117,323
Other	5,466
	<u>1,211,289</u>

Fire:

Personnel	67,426
Fringe benefits	13,821
Supplies	6,108
Contracted services	22,783
Telephone	5,486
Transportation	237
Dues and memberships	350
Conferences and workshops	993
Utilities	9,172
Repairs and maintenance	2,002
Equipment rental	223
Other	1,370
	<u>129,971</u>

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2005

Public Safety, continued:

Building Inspection Department:

Personnel	52,534
Fringe benefits	22,317
Supplies	478
Contracted services	10,152
	<u>85,481</u>
 Total public safety	 <u>1,426,741</u>

Public Works:

Department of Public Works:

Personnel	156,859
Fringe benefits	67,178
Supplies	10,337
Contracted services	8,407
Telephone	704
Printing and publications	96
Repairs and maintenance	2,092
Equipment rental	70,217
Other	260
	<u>316,150</u>

Sidewalks:

Contracted services	78,913
Printing and publications	210
	<u>79,123</u>

Street Lighting:

Utilities	<u>95,989</u>
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Refuse:

Personnel	58,873
Fringe benefits	26,598
Supplies	5,361
Contracted services	353,494
Printing and publications	918
Equipment rental	106,785
	<u>552,029</u>

Total public works	<u>1,043,291</u>
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CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2005

Community and Economic Development:

Planning:

Supplies	544
Contracted services	3,165
Dues and memberships	240
Education and training	12
Printing and publications	1,836
	<u>5,797</u>

Economic and Community Development:

Personnel	35,990
Fringe benefits	16,274
Supplies	108
Contracted services	5,378
Telephone	132
Transportation	180
Conferences and workshops	180
Printing and publications	144
Other	8,918
	<u>67,262</u>

Total community and economic development	<u>73,059</u>
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Recreation and Culture:

Parks and Recreation:

Personnel	100,488
Fringe benefits	42,981
Supplies	8,278
Contracted services	32,357
Telephone	81
Utilities	33,085
Repairs and maintenance	7,650
Equipment rental	46,831
	<u>271,751</u>

Launching Ramps:

Personnel	33,596
Fringe benefits	6,837
Supplies	2,217
Contracted services	21,133
Telephone	340
Utilities	3,472
Repairs and maintenance	3,362
Equipment rental	12,220
	<u>83,177</u>

Total recreation and culture	<u>354,928</u>
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CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2005

Other:

Insurance and bonds:	<u>57,129</u>
Total other	<u>57,129</u>

Capital Outlay:

General government	46,256
Public safety	73,720
Public works	4,261
Community and economic development	1,120
Recreation and culture	<u>1,340</u>
Total capital outlay	<u>126,697</u>
Total expenditures	4,249,845

Other Financing Uses:

Transfers to other funds	<u>476,957</u>
Total expenditures and other financing uses	<u><u>\$ 4,726,802</u></u>

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2005

	<i>Special Revenue Funds</i>				
	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Waterfront Playground Fund</i>	<i>Movies in the Park Fund</i>	<i>Law Enforcement Training Fund</i>
Assets:					
Cash and investments	\$ 48,812	\$ 9,941	\$ 24,282	\$ 258	\$ 706
Notes receivable	-	-	-	-	-
Interest receivable	496	101	247	3	7
Due from other governmental units	6,000	2,868	-	-	-
Prepaid expenditures	-	24	-	-	-
Total assets	<u>\$ 55,308</u>	<u>\$ 12,934</u>	<u>\$ 24,529</u>	<u>\$ 261</u>	<u>\$ 713</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable					
and accrued expenses	\$ -	\$ 272	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	1,283	-	-	-
Total liabilities	<u>-</u>	<u>1,555</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for:					
Prepaid expenditures	-	24	-	-	-
Capital projects	-	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Unreserved:					
Special revenue funds	<u>55,308</u>	<u>11,355</u>	<u>24,529</u>	<u>261</u>	<u>713</u>
Total fund balances	<u>55,308</u>	<u>11,379</u>	<u>24,529</u>	<u>261</u>	<u>713</u>
Total liabilities and fund balances	<u>\$ 55,308</u>	<u>\$ 12,934</u>	<u>\$ 24,529</u>	<u>\$ 261</u>	<u>\$ 713</u>

<i>Special Revenue Fund</i>	<i>Capital Projects Funds</i>			<i>Permanent Fund</i>	
<i>Waterfront Development Fund</i>	<i>Cartier Park Fishing Piers Project Fund</i>	<i>1984 Building Rehab Fund</i>	<i>Watchcase Contamination Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
\$ 78,058	\$ 9,797	\$ 1,721	\$ 174,632	\$ 238,270	\$ 586,477
-	-	18,999	-	-	18,999
794	100	-	-	2,424	4,172
-	-	51,936	-	-	60,804
-	-	-	-	-	24
<u>\$ 78,852</u>	<u>\$ 9,897</u>	<u>\$ 72,656</u>	<u>\$ 174,632</u>	<u>\$ 240,694</u>	<u>\$ 670,476</u>
\$ 32,825	\$ -	\$ 222	\$ -	\$ -	\$ 33,319
-	-	16,000	-	-	16,000
-	-	19,913	-	-	21,196
<u>32,825</u>	<u>-</u>	<u>36,135</u>	<u>-</u>	<u>-</u>	<u>70,515</u>
-	-	-	-	-	24
-	9,897	36,521	174,632	-	221,050
-	-	-	-	240,694	240,694
<u>46,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>138,193</u>
<u>46,027</u>	<u>9,897</u>	<u>36,521</u>	<u>174,632</u>	<u>240,694</u>	<u>599,961</u>
<u>\$ 78,852</u>	<u>\$ 9,897</u>	<u>\$ 72,656</u>	<u>\$ 174,632</u>	<u>\$ 240,694</u>	<u>\$ 670,476</u>

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	<i>Special Revenue Funds</i>				
	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Waterfront Playground Fund</i>	<i>Movies in the Park Fund</i>	<i>Law Enforcement Training Fund</i>
Revenues:					
Federal grants	\$ -	\$ 10,573	\$ -	\$ -	\$ -
State grants	-	6,520	-	-	3,371
Contributions from other units	33,437	55,000	-	1,300	-
Charges for services	41,525	17,482	-	-	-
Interest and rents	1,962	621	728	6	21
Other revenue	12,959	15,797	226	1,657	-
Total revenues	89,883	105,993	954	2,963	3,392
Expenditures:					
<i>Current:</i>					
Public safety	-	-	-	-	3,168
Health and welfare	-	140,598	-	-	-
Community and economic development	-	-	-	-	-
Recreation and culture	116,354	-	454	1,843	-
Capital outlay	-	1,288	-	859	-
Total expenditures	116,354	141,886	454	2,702	3,168
Excess (deficiency) of revenues over expenditures	(26,471)	(35,893)	500	261	224
Other financing sources (uses):					
Transfers in	45,100	41,200	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources	45,100	41,200	-	-	-
Net change in fund balance	18,629	5,307	500	261	224
Fund balance, beginning of year	36,679	6,072	24,029	-	489
Fund balance, end of year	\$ 55,308	\$ 11,379	\$ 24,529	\$ 261	\$ 713

<i>Special Revenue Fund</i>	<i>Capital Projects Funds</i>			<i>Permanent Fund</i>	
<i>Waterfront Development Fund</i>	<i>Cartier Park Fishing Piers Project Fund</i>	<i>1984 Building Rehab Fund</i>	<i>Watchcase Contamination Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
\$ -	\$ -	\$ 337,474	\$ -	\$ -	\$ 348,047
112,032	-	-	-	-	121,923
-	-	-	-	-	89,737
-	-	-	-	-	59,007
1,170	344	271	-	7,174	12,297
22,856	13,400	53,411	-	4,310	124,616
<u>136,058</u>	<u>13,744</u>	<u>391,156</u>	<u>-</u>	<u>11,484</u>	<u>755,627</u>
-	-	-	-	-	3,168
-	-	-	-	-	140,598
251,933	-	411,794	15,622	-	679,349
-	3,847	-	-	-	122,498
-	-	-	-	-	2,147
<u>251,933</u>	<u>3,847</u>	<u>411,794</u>	<u>15,622</u>	<u>-</u>	<u>947,760</u>
<u>(115,875)</u>	<u>9,897</u>	<u>(20,638)</u>	<u>(15,622)</u>	<u>11,484</u>	<u>(192,133)</u>
72,226	-	-	-	-	158,526
-	-	-	-	(6,232)	(6,232)
<u>72,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,232)</u>	<u>152,294</u>
(43,649)	9,897	(20,638)	(15,622)	5,252	(39,839)
89,676	-	57,159	190,254	235,442	639,800
<u>\$ 46,027</u>	<u>\$ 9,897</u>	<u>\$ 36,521</u>	<u>\$ 174,632</u>	<u>\$ 240,694</u>	<u>\$ 599,961</u>

CITY OF LUDINGTON

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended December 31, 2005

	<i>January 1, 2005</i>	<i>Additions</i>	<i>Deductions</i>	<i>December 31, 2005</i>
<u>Bryant Road Property Fund</u>				
Assets:				
Cash and cash equivalents	\$ 52,295	\$ 472,343	\$ -	\$ 524,638
Liabilities:				
Accounts payable	\$ 52,295	\$ 472,343	\$ -	\$ 524,638
<u>Payroll Fund</u>				
Assets:				
Cash and cash equivalents	\$ (14)	\$ 3,229,475	\$ 3,229,461	\$ -
Liabilities:				
Salaries and wages payable	\$ (14)	\$ 3,229,475	\$ 3,229,461	\$ -
<u>Current Tax Collection Fund</u>				
Assets:				
Cash and cash equivalents	\$ 4,234,092	\$ 9,354,464	\$ 9,588,290	\$ 4,000,266
Liabilities:				
Due to other governmental units	\$ 4,234,092	\$ 9,354,464	\$ 9,588,290	\$ 4,000,266
<u>Transportation Fund</u>				
Assets:				
Cash and cash equivalents	\$ 2,000	\$ -	\$ -	\$ 2,000
Liabilities:				
Accounts payable	\$ 2,000	\$ -	\$ -	\$ 2,000
<u>Fringe Benefits Fund</u>				
Assets:				
Cash and cash equivalents	\$ -	\$ 1,298,260	\$ 1,298,260	\$ -
Prepaid expense	15,179	92,941	108,120	-
Total assets	\$ 15,179	\$ 1,391,201	\$ 1,406,380	\$ -
Liabilities:				
Accounts payable	\$ 15,179	\$ 1,391,201	\$ 1,406,380	\$ -

continued

CITY OF LUDINGTON

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES, CONTINUED

Year Ended December 31, 2005

	<i><u>January 1, 2005</u></i>	<i><u>Additions</u></i>	<i><u>Deductions</u></i>	<i><u>December 31, 2005</u></i>
<u>Total Agency Funds</u>				
Assets:				
Cash and cash equivalents	\$ 4,288,373	\$ 14,354,542	\$ 14,116,011	\$ 4,526,904
Prepaid expense	<u>15,179</u>	<u>92,941</u>	<u>108,120</u>	<u>-</u>
Total assets	<u><u>\$ 4,303,552</u></u>	<u><u>\$ 1,447,483</u></u>	<u><u>\$ 14,224,131</u></u>	<u><u>\$ 4,526,904</u></u>
Liabilities:				
Accounts payable	\$ 69,474	\$ 1,863,544	\$ 1,406,380	\$ 526,638
Salaries and wages payable	(14)	3,229,475	3,229,461	-
Due to other governmental units	<u>4,234,092</u>	<u>9,354,464</u>	<u>9,588,290</u>	<u>4,000,266</u>
Total liabilities	<u><u>\$ 4,303,552</u></u>	<u><u>\$ 14,447,483</u></u>	<u><u>\$ 14,224,131</u></u>	<u><u>\$ 4,526,904</u></u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2005

2000 BUILDING AUTHORITY BONDS

Issue in the amount of \$ 2,700,000

Less: Principal paid in prior years (60,000)
Principal paid in current year (2,035,000)

Balance payable at December 31, 2005 \$ 605,000

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest Due</u>		<u>Total Annual Requirement</u>
			<u>2/1</u>	<u>8/1</u>	
2006	5.125%	\$ 100,000	\$ 68,644	\$ 68,644	\$ 237,288
2007	5.125%	110,000	66,081	66,082	242,163
2008	5.125%	120,000	63,263	63,262	246,525
2009	5.25%	130,000	60,187	60,188	250,375
2010	5.30%	<u>145,000</u>	<u>56,775</u>	<u>56,775</u>	<u>258,550</u>
		<u>\$ 605,000</u>	<u>\$ 314,950</u>	<u>\$ 314,951</u>	<u>\$ 1,234,901</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2005

2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of \$ 2,135,000

Less: Principal paid in prior years -
Principal paid in current year -

Balance payable at December 31, 2005 \$ 2,135,000

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest Due</u>		<u>Total Annual Requirement</u>
			<u>2/1</u>	<u>8/1</u>	
2006	3.00%	\$ 20,000	\$ 40,705	\$ 40,933	\$ 101,638
2007	3.25%	20,000	40,632	40,633	101,265
2008	3.25%	20,000	40,308	40,307	100,615
2009	3.50%	20,000	39,982	39,983	99,965
2010	3.50%	20,000	39,633	39,632	99,265
2011	3.50%	175,000	39,282	39,283	253,565
2012	3.75%	190,000	36,220	36,220	262,440
2013	4.00%	195,000	32,658	32,657	260,315
2014	4.00%	210,000	28,757	28,758	267,515
2015	4.00%	225,000	24,558	24,557	274,115
2016	3.70%	240,000	20,057	20,058	280,115
2017	3.80%	250,000	15,618	15,617	281,235
2018	3.90%	265,000	10,867	10,868	286,735
2019	4.00%	285,000	5,700	5,700	296,400
		<u>\$ 2,135,000</u>	<u>\$ 414,977</u>	<u>\$ 415,206</u>	<u>\$ 2,965,183</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2005

1996 SEWAGE DISPOSAL SYSTEM REVENUE BONDS

Issue in the amount of	\$	700,000
Less:		
Principal paid in prior years		(525,000)
Principal paid in current year		<u>(85,000)</u>
Balance payable at December 31, 2004	\$	<u>90,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest Due</u>		<u>Total Annual Requirement</u>
			<u>1/1</u>	<u>7/1</u>	
2006	4.90%	\$ -	\$ -	\$ 2,250	\$ 2,250
2007	5.00%	90,000	2,250	-	92,250
		<u>\$ 90,000</u>	<u>\$ 2,250</u>	<u>\$ 2,250</u>	<u>\$ 94,500</u>

1998 WATER SUPPLY SYSTEM REVENUE BONDS

Issue in the amount of	\$	700,000
Less:		
Principal paid in prior years		(300,000)
Principal paid in current year		<u>(70,000)</u>
Balance payable at December 31, 2004	\$	<u>330,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest Due</u>		<u>Total Annual Requirement</u>
			<u>2/1</u>	<u>8/1</u>	
2006	4.25%	\$ 75,000	\$ 7,076	\$ 5,482	\$ 87,558
2007	4.30%	80,000	5,483	3,763	89,246
2008	4.30%	85,000	3,762	1,935	90,697
2009	4.30%	90,000	1,935	-	91,935
		<u>\$ 330,000</u>	<u>\$ 18,256</u>	<u>\$ 11,180</u>	<u>\$ 359,436</u>

**BERTHIAUME
& COMPANY**

Certified Public Accountants



60 Harrow Lane
Saginaw, Michigan 48638

(989) 791-1555
Fax (989) 791-1992

AUDIT COMMUNICATION

February 23, 2006

To the Honorable Mayor and Members of City Council
City of Ludington, Michigan

We have audited the financial statements of the City of Ludington for the year ended December 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the City of Ludington in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Ludington are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2005. We noted no transactions entered into by the City of Ludington during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning January 1, 2009.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.



SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

